

Top Secret

25X1

H.R.



National Intelligence Bulletin

Top Secret

8 November 1974

25X1

Nº 654

Page Denied

National Intelligence Bulletin

November 8, 1974

CONTENTS

CHINA-USSR: Peking proposal for border agreement contained in anniversary message. (Page 1)

BOLIVIA: The government has restored order in Santa Cruz. (Page 3)

CAMBODIA: The military situation. (Page 5)

25X1

SAUDI ARABIA: Less conservative investment policy may be developing. (Page 7)

PALESTINE LIBERATION ORGANIZATION: UN strategy. (Page 8)

ISRAEL: Policy toward West Bank settlement. (Page 9)

TURKEY: Ecevit hopes to break stalemate that has prevented formation of a new government. (Page 10)

25X1

CANADA - MIDDLE EAST: Slight shift noted in Ottawa's Middle East policy. (Page 12)

INTERNATIONAL MONETARY DEVELOPMENTS: Dollar continues to decline, while gold price eases. (Page 13)

FOR THE RECORD: (Page 14)

25X1

National Intelligence Bulletin

November 8, 1974

CHINA-USSR

In an unusual display of tactical flexibility, Peking has surfaced a package proposal for an agreement with the USSR for dealing with the Sino-Soviet border dispute.

The proposal is contained in a message from the Chinese to the Soviets marking the anniversary of the October Revolution. It calls for a pact renouncing aggression and the use of force, a mutual troop pullback from disputed border areas, measures to avert conflict along the frontier, and maintenance of the status quo of the border itself.

25X1 [redacted] publicly Peking has not proposed a nonaggression pact with the Soviets. The Chinese had greeted earlier and well-publicized Soviet calls for a nonaggression pact with public silence and private contempt. Chinese officials argued that the Soviet proposal was hypocritical and that any such treaty would have to be accompanied by a withdrawal of Soviet forces from the frontier.

This linkage remains in the new Chinese proposal. Peking may believe that Moscow, by publicizing its own, apparently accommodating proposals, had created a favorable international impression, particularly among foreign Communist parties. The Chinese would also wish to appear more flexible and may hope to create difficulties for Soviet efforts to organize an international Communist conference. As long as a nonaggression and nonuse of force pact remains linked to the question of withdrawal of Soviet forces from the border, China almost certainly expects that Moscow will find the package unacceptable. Nevertheless, the new proposal represents the first public recasting of the Chinese position since the talks began.

China has not yet widely disseminated its message to Moscow. The anniversary greeting was first broadcast in Russian to the Soviet Union--standard Chinese procedure in recent years; it has not yet been released for internal

National Intelligence Bulletin

November 8, 1974

consumption. Although the level of vituperation in China's anti-Soviet propaganda has not been running particularly high, there has been no diminution of these attacks in recent months.

It seems clear that the Chinese wish to convey the impression that prospects for improved Sino-Soviet relations may not be as dim as most observers believe. This may reflect a tactical maneuver by Peking to reduce some of the leverage held by the US against China, especially in advance of President Ford's trip to Vladivostok and any future trip by Secretary Kissinger to Peking.

It is also possible that the new proposal was designed as a sop to those in China who might favor some reduction in China's hostility toward the USSR. Articles in the Chinese press suggest Mao may suspect that some elements in the military harbor such views. They may have argued that China must either beef up its military forces or reduce tension with Moscow.

While the military still seems to be under considerable pressure, there are signs that army fortunes have recently improved. Military men were particularly conspicuous at the National Day celebration on October 1, and Li Te-sheng, the commander of the Shenyang Military Region, who was under heavy attack last spring, reappeared last weekend on a non-ceremonial occasion for the first time since early this year.

Moscow's initial response to the Chinese greeting is likely to combine suspicion with curiosity. Recent Soviet statements suggest that Moscow had no advance warning Peking would take a new public initiative on the border issue. Thus, the Soviet leaders will want to find out if the surfacing of this proposal is a sign of real flexibility in the Chinese position. The Soviets particularly will want to find out if there is any give on the troop withdrawal demand, which Moscow in the past has categorically rejected.

Although they will be highly skeptical of Chinese motives, the Soviets will almost certainly feel constrained to give some positive sign of their desire to compose differences with the Chinese. They will probably prepare to send their border negotiator Ilichev back to Peking, perhaps just before the summit meeting near Vladivostok.

National Intelligence Bulletin

November 8, 1974

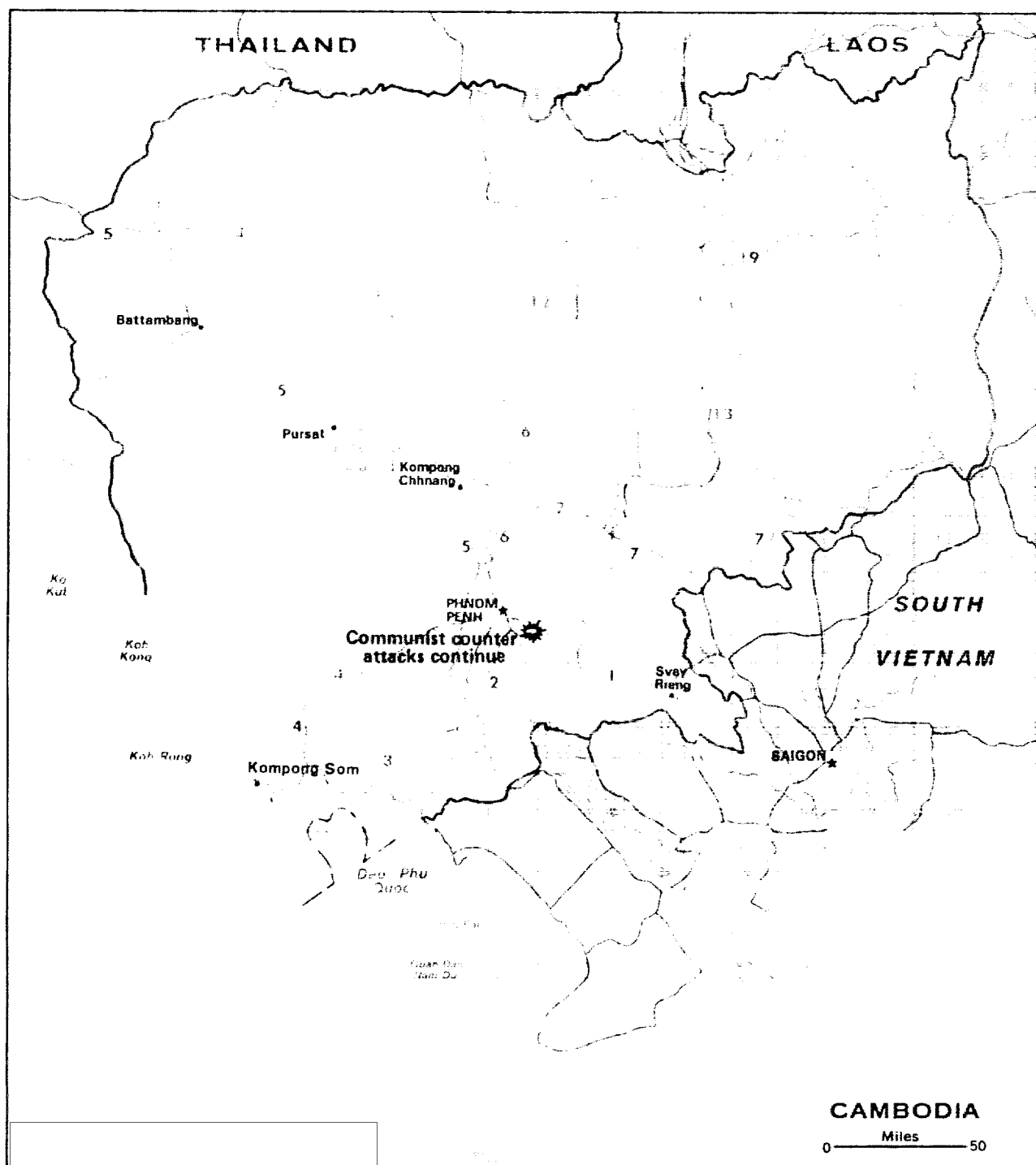
BOLIVIA

The Bolivian government has restored order in the provincial capital of Santa Cruz, where a group of dissident politicians and an infantry unit staged an uprising yesterday.

President Banzer went to Santa Cruz, approximately 350 miles southeast of La Paz, with military reinforcements after receiving reports that elements of an infantry regiment stationed in the area were supporting the insurgency. Two radio stations were briefly taken over by the rebels, who were led by right-wing politician Carlos Valverde and retired General Julio Prado, patriarch of one of the country's most prominent families. Only minor skirmishes between rebels and government troops and strafing by government aircraft were reported.

The fact that Banzer personally went to the province indicated that he had full confidence in the support of his military commanders, who remained in the capital. Although the military chiefs have indicated that they want to replace Banzer, they apparently favor an orderly transfer of power. [REDACTED]

25X1



556817 11-74 CIA

National Intelligence Bulletin

November 8, 1974

CAMBODIA

Fighting in Cambodia remains focused in the upper Bassac River corridor southeast of Phnom Penh and along principal land lines of communication.

The government's three-month-old operation to extend its defensive perimeter in the Bassac River corridor has all but ground to a halt. Strong Communist attacks this week forced three government battalions to withdraw from defensive positions nine miles southeast of the capital. These government units have regrouped, but it now seems unlikely that Phnom Penh can firm up a new defense line before the beginning of the dry season.

Government troops have cleared Route 5 northwest of Kompong Chhnang, and damage to this stretch of highway has been repaired. Although Route 5 is now open to traffic between Kompong Chhnang and Battambang, the Communists remain in position to interdict this key route.

Meanwhile, government forces along Route 4 have fallen back to consolidate defenses on more favorable terrain seven miles southwest of Kompong Speu, and the Communists in this area are maintaining their pressure. Elsewhere, garrison troops at Svay Rieng repulsed strong attacks early in the week without losing any ground and have inflicted heavy casualties on Communist attackers.

25X1



25X1

Page Denied

National Intelligence Bulletin November 8, 1974

25X1

25X1

SAUDI ARABIA

The death of Anwar Ali, governor of the Saudi Arabian Monetary Agency (SAMA), on November 5 may accelerate the emergence of a less conservative Saudi investment policy. Other Saudi financial officials had been maneuvering to undercut Ali's dominant role.

SAMA has been responsible for the investment of essentially all the government's foreign assets. Nonetheless, it has remained a small organization, unable to formulate or carry out investment decisions quickly. Relying heavily on Western financial advice, SAMA has placed 75 percent of Saudi Arabia's official foreign assets in bank deposits--more than half in highly liquid accounts.

In an attempt to reduce SAMA's role, Saudi officials have made plans for a new overseas investment office. They reportedly want to reduce dependence on foreign expertise and to lower the proportion of highly liquid assets.

Ali's death comes at a time when Saudi liquid assets are at peak levels. Because Ramadan brought SAMA's operations to a halt, most oil receipts for September and October--some \$8 billion--have piled up in very-short-term Eurodollar accounts. Over \$2 billion in receipts for November are due next week. Any delay involved in effecting a new investment policy will substantially worsen the problem.

25X1

25X1

National Intelligence Bulletin

November 8, 1974

PALESTINE LIBERATION ORGANIZATION

Leaders of the Palestine Liberation Organization apparently do not intend to take a tough stand toward Israel during the UN General Assembly debate on the Palestine question scheduled to begin next week. PLO chief Yasir Arafat is said to have acknowledged privately that the organization's goals can best be served by "positive and constructive" behavior during the debate.

An assessment by the US embassy in Beirut acknowledges that some PLO spokesmen are still making hard-line statements that the establishment of the Palestinian "national authority" authorized at Rabat is merely a step toward the achievement of a "secular, democratic state in all of Palestine." The embassy believes, however, that this talk is public posturing designed for internal Palestinian consumption and is not taken seriously by PLO "moderates."

According to US Ambassador Godley in Beirut, the test of PLO "moderation" will be the degree to which the PLO delegation will accept Security Council Resolution 242--which implicitly acknowledges Israel's right to exist--instead of trying to bulldoze the General Assembly into supplanting, or destroying, it.

The ambassador considers it most unlikely that the PLO will announce the formation of a Palestine government in exile before or during the assembly debate. From the welter of conflicting statements by Palestinian spokesmen on the subject, the embassy points to two made by proponents of a provisional government on November 6 which assert that no announcement will be made until sometime after the debate.

The embassy observes that there are at least three obstacles to early formation of a Palestinian government:

--The "rejectionist" argument that such a government implies a weakening of the PLO's commitment to the establishment of a secular state throughout the territory of prewar Palestine. This argument must be taken into consideration by even the "moderates" of the PLO.

National Intelligence Bulletin

November 8, 1974

--Continuing disagreements within the PLO on the allotment of slots in the government.

--The necessity for ratification of a government by the unwieldy Palestine National Council, which would have to be convened for that purpose.

Even those Palestinian officials who had been confidently predicting the formation of a government soon are now starting to hedge their statements, echoing Arafat's own pronouncement that a government will be formed "when conditions are suitable." [REDACTED]

25X1

ISRAEL

The US embassy in Tel Aviv believes the National Religious Party may have extracted from Prime Minister Rabin, as part of the recent agreement under which the Religious Party rejoined the cabinet, at least an implicit understanding that three new Jewish settlements will be established on the Israeli-occupied West Bank.

The embassy concludes, however, that any arrangement is probably sufficiently vague to allow Rabin considerable flexibility as to timing. The matter apparently has not yet come before the cabinet for action.

Israeli newspapers reported last week that Rabin had given such a commitment. The new "security" settlements were said to be planned for sites east and south of Jerusalem in the direction of Jericho and Hebron.

The Arabs, who closely monitor all Israeli activity in the occupied territories, have not reacted to these press reports. They are certain, however, to condemn any formal move by the Rabin government to establish the settlements. [REDACTED]

25X1

25X1

National Intelligence Bulletin

November 8, 1974

TURKEY

Prime Minister Ecevit's postponement of Secretary Kissinger's visit to Ankara, combined with his withdrawal as formateur and threat to resign from the caretaker government, may have been in part an effort to break the seven-week-old stalemate that has prevented the formation of a new government.

Ecevit's announcement that Kissinger's visit was postponed and that he had asked to be relieved of the mandate for forming a government came on the heels of declarations by leaders of the major opposition parties that they would oppose any attempt to form a minority government. The Prime Minister had already been turned down earlier this week in his efforts to put together coalitions with both the Justice and Democratic parties.

There is no doubt that Ecevit sees his ability to make concessions on Cyprus as being restricted, but other Turkish leaders have stated that there is sufficient consensus to permit Ecevit to deal with the problem. Ecevit may hope that the growing concern of the Turkish military over the possibility of losing US assistance if there is no progress on Cyprus will prompt the armed forces to do some arm twisting to break the political stalemate.

The next step is for President Koruturk to appoint someone to make another effort to form a government. Since Justice Party leader Demirel has already failed once, the President may turn to the leader of one of the small right-wing parties or try again to find support for a nonpartisan government. If these options remain closed, the opposition parties may yet decide to support Ecevit in a minority government.

Page Denied

25X1

25X1

National Intelligence Bulletin

November 8, 1974

CANADA - MIDDLE EAST

Officials in Ottawa have told US embassy officers that, while the official Canadian position on the Middle East remains one of impartiality, there has been some shift away from traditional unofficial support for Tel Aviv.

The Canadians stressed that the change of attitude was only "one of nuance." It has been due in large part to the succession of Allan MacEachan to head the Department of External Affairs in place of Mitchell Sharp, who represented a heavily Jewish constituency. MacEachan seems interested in more balanced relations with the Arab states.

Despite sharp criticism in the House of Commons and from Jewish organizations over Canada's abstention in the UN vote inviting the Palestine Liberation Organization to participate in the General Assembly debate on the Palestinian question, MacEachan maintained in Commons' debate that there had been no change in Canadian policy. He also said, "The Palestinian people...ought to be represented in one form or another at peace negotiations."

Canadian officials have noted that Ottawa is not yet prepared to go beyond recognition of the right of the Palestinian people to be represented in international discussions on the Middle East. They added, however, that Canada will continue to abstain in votes on recognition of the PLO if the question arises in other international organizations.

25X1

National Intelligence Bulletin November 8, 1974

INTERNATIONAL MONETARY DEVELOPMENTS

The dollar continued its decline on foreign currency exchanges yesterday, while the price of gold eased slightly from Wednesday's near-record level of \$178 an ounce. The dollar has now declined from 0.5 to 3 percent against major European currencies since the end of October.

The largest declines have been against the Deutsche-mark and Swiss franc, which have gained 1.6 and 2.8 percent respectively relative to the dollar. Most other European currencies, including the lira, have gained slightly more than 0.5 percent during the period, while the yen has remained unchanged.

The dollar's trend stems mainly from the downward movement of short-term dollar interest rates. Traders also cite the possibility of a US coal strike as an additional reason. The downward trend of short-term interest rates in the US and the resulting decline in Eurodollar rates is making other European currencies more attractive, despite some interest rate declines for those currencies. The announcement of additional prime rate reductions by US banks is fueling speculation that rates will fall even lower, causing some movement away from dollars and into European currencies.

Gold has gained more than \$10 an ounce in the last week. The surge is linked mainly to prospects of an increase in demand that may result when US citizens are permitted to enter the gold market at the end of the year. Gold's rise to near-record levels may also be facilitated, in part, by a general reduction in short-term interest rates, which lowers the cost of holding gold. Some Swiss bankers are predicting prices of over \$200 an ounce by the end of the year.

25X1

National Intelligence Bulletin

November 8, 1974

FOR THE RECORD

25X1 USSR: Statistics on Jewish emigration from the USSR to Israel during September and October show that the rate of emigration this year continues to be lower than in 1973. According to the Dutch, who process Israel-bound emigrants in Moscow, some 1,600 emigrants were processed in September and 1,900 in October. This is a slight rise over the monthly rates of the summer, but the ten-month total for 1974 is still only 17,200--40 percent lower than for the same period in 1973, when 28,212 were allowed to leave. The Dutch calculate, based on these figures, that the overall total for 1974 will be somewhere between 20,000 and 22,000.

Sri Lanka - USSR: Prime Minister Bandaranaike leaves for Moscow this weekend hoping to receive new aid, particularly for building a \$75-million irrigation and hydroelectric project. The visit is part of Mrs. Bandaranaike's continuing efforts to secure new foreign assistance and follows her recent visit to Iran, where she obtained \$67 million in credits.

25X1 Portugal: Portuguese army officers will not participate in US-sponsored training courses next year, according to Portugal's army chief of staff. They have normally enrolled their best men. The courses were part of a relatively modest program involving 35 officers. The chief of staff said the officers were needed at home because the military is now managing a fluid political situation. He also said the army is studying the future structure of the military. The cancellation should be taken at face value, rather than as an affront to the US.

Top Secret

Top Secret



25X1